



Japan Banks, Insurers Have \$2.3 Billion Lehman Risk (Update1)

By Takahiko Hyuga, Shingo Kawamoto and Komaki Ito



Sept. 17 (Bloomberg) -- Japan's banks and insurers, including [Mitsubishi UFJ Financial Group Inc.](#), announced a combined 245 billion yen (\$2.3 billion) of potential losses tied to the collapse of Lehman Brothers Holdings Inc.

Banks from Tokyo-based Mitsubishi UFJ, Japan's largest, to [Bank of the Ryukyus Ltd.](#), a lender based in Okinawa, disclosed assets that might become worthless following Lehman's filing for bankruptcy protection. Mizuho Trust & Banking Co. cut its profit forecast by more than half, citing 11.8 billion yen of losses on bonds and loans linked to Lehman.

Japanese bank stocks had their worst drop in four years yesterday in Tokyo. The upheaval on Wall Street that saw Lehman fail, Merrill Lynch & Co. sell itself to Bank of America Corp., and [American International Group Inc.](#) try to raise emergency funds prompted at least one Japanese bank executive to rule out U.S. acquisitions.

"We won't be investing in U.S. banks under current circumstances," Mitsubishi UFJ Chairman [Ryosuke Tamakoshi](#) said yesterday in an interview in Tokyo.

Mitsubishi UFJ has about \$235 million at risk related to Lehman's collapse, the company said. The total for 37 banks was 198 billion yen, compared with a combined 47 billion yen at seven Japanese insurers, according to data compiled by Bloomberg based on announcements made by late yesterday.

Biggest Creditors

[Mizuho Financial Group Inc.](#), Japan's second-largest bank by revenue, may book as much as 20 billion yen of losses related to Lehman, spokeswoman [Masako Shiono](#) said in an interview. The bank isn't planning to reduce earnings forecasts, she said.

Most of the announced assets tied to Lehman are in the form of bonds or loans.

[The Topix Banks Index](#) shed 8.1 percent yesterday to 222.70, close to a five-year low. It gained 2.1 percent as of 9:44 a.m. today in Tokyo.

Lehman's bankruptcy filing listed Japanese banks as some of its biggest creditors with a combined \$1.6 billion, led by Aozora Bank Ltd. at \$463 million. Aozora later said it has the equivalent of \$575 million in loans to Lehman.

The Tokyo-based lender, controlled by Cerberus Capital Management LP, said its actual losses may total \$25 million.

"We expect the net loss to be about \$25 million after hedge transactions, collateral and recoveries on loans," [Richard Layton](#), Aozora's chief financial officer, said in a phone interview.

'Plenty of Skepticism'

Aozora fell 3.5 percent in Tokyo trading, after [tumbling](#) 16 percent to a record low yesterday.

"There is plenty of skepticism about the level of disclosure by affected banks," said [Eiichiro Kuwana](#), president of Greenwich, Connecticut-based Cook Pine Capital LLC. "Aozora's assertion that it had hedged out a good portion of the Lehman exposure was not taken at face value by the market."

Lehman's implosion caps a turbulent year for Japanese banks, which have stumbled as losses on subprime mortgage investments mounted and the domestic economy edged closer to a recession. The Topix Banks Index has lost 25 percent during the past 12 months.

Some bank executives downplayed the risks posed by Lehman's bankruptcy.

``There may be some impact, but it should be limited," said [Resona Holdings Inc.](#) Chairman [Eiji Hosoya](#). Resona, Japan's fourth-largest bank, holds 20 billion yen of Lehman debt. The stock rose 5.5 percent, after slumping 13 percent yesterday.

Second-Biggest Failure

New York-based Lehman has operated a Tokyo office since 1974 and employs about 1,300 people in Japan. The firm's main units in Japan filed for bankruptcy yesterday in the country's second- biggest corporate collapse.

Lehman Brothers Japan Inc. and Lehman Brothers Holdings Japan Inc. sought bankruptcy protection in Tokyo District Court with about 4 trillion yen in combined liabilities, Teikoku Databank Ltd. said on its Web site.

Japan's seven largest banks have 252.7 billion yen of combined ``exposure" to Lehman, compared with 60.5 billion yen for regional lenders, Credit Suisse Group analyst [Shinichi Ina](#) said in a note to clients yesterday. The former group mainly holds loans to Lehman, while the regional banks primarily own its bonds, according to Ina.

``Major banks have considerable protection in the form of collateral and hedging, so the actual impact is likely to be less significant than the stated amounts," Ina wrote. Lehman's collapse ``could be rubbing salt into the wounds for the regional banking sector."

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